


**Government of the District of Columbia
Office of the Chief Financial Officer**



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TO: Adrian Fenty
Mayor, District of Columbia

FROM: Natwar M. Gandhi
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DATE: APR 10 2008

SUBJECT: Potential Cost and Savings Analysis: "DCPS Cost Savings Award Program of 2008"

REFERENCE: Draft Emergency Rulemaking

Preamble

D.C. Municipal Regulations requires that when the Mayor offers an incentive award to an employee, the OCFO shall certify that funds are available in the fiscal year for which the monetary award is recommended. (DCMR Chapter 6, Subsection 1903.3). *This analysis of potential costs and savings does not constitute such certification for individual incentive award offers. This analysis, as the subject line indicates, only provides an estimate of potential total costs and savings under plausible conditions. The CFO will have to provide a separate written certification of the availability of funds for every award offer made under this emergency rulemaking.*

Summary of Findings

The draft emergency rulemaking authorizes the Mayor to offer retirement incentives to District of Columbia Public Schools (DCPS) teachers who are eligible for retirement by June 30, 2008, and separation incentives to teachers who are currently working for one of the 23 schools that would close or one of the 27 schools that are being restructured under corrective action mandated by the No Child Left Behind Act.

Table 1 summarizes the total costs and savings calculations based on certain assumptions for the FY2008 to FY2011 Budget and Financial Plan period. The Cost Savings Award program proposed by this emergency rulemaking is estimated to cost \$9.71 million in award payments for FY 2008. Potential savings from reduced salary payments for the

three subsequent years is \$23.13 million. The net impact of this rulemaking on the four-year budget and financial plan period is \$13.42 million.

| Table 1 - Potential Costs and Savings from the Cost Savings Award Program Rulemaking, in millions of dollars | | | | | |
|---|-----------------|----------------|----------------|----------------|----------------|
| | FY 2008 | FY2009* | FY2010* | FY2011* | Total |
| Cost of Award Programs | (\$9.71) | \$0.00 | \$0.00 | \$0.00 | (\$9.71) |
| Savings from Salary Reductions | \$0.00 | \$7.41 | \$7.71 | \$8.01 | \$23.13 |
| Total Savings (Costs) | (\$9.71) | \$7.41 | \$7.71 | \$8.01 | \$13.42 |

* A four percent cost of living increase in teacher salaries is assumed in calculating future year savings

Background

The proposed Cost-Saving Award (CSA) program offers retirement awards to those teachers who would be eligible for retirement by June 30, 2008, and separation awards to those teachers who are currently working for one of the 50 schools that are being closed or restructured by the DCPS.¹ (See appendix list for the list of closed and restructured schools.) The program would be offered in April 2008, as soon as the emergency rulemaking is effective, through December 31, 2008.

The CSA Program offers \$20,000 to all teachers who are eligible for retirement by June 30, 2008. Additionally, separation awards are offered to teachers employed at schools under restructuring or closing plans. These awards, capped at \$20,000, are offered on a sliding scale based on the number of years of service, as depicted in Table 2.

| Table 2 - Description of the Cost Savings Award | |
|--|---------------------------|
| Length of District Government Service | Cost-Savings Award |
| Over 20 years | \$20,000 |
| Over 15 up to 20 years | \$15,000 |
| Over 10 up to 15 years | \$10,000 |
| Over 5 up to 10 | \$5,000 |
| 5 years or less | \$1,000 |

The CSA program excludes civilian federal government service and military service otherwise creditable. It also excludes those teachers who are participating in the Early Retirement/Easy Out program (DCMR Chapter 6, Subsection 1904.7). Teachers who

¹ The language in the draft emergency rulemaking submitted to the OCFO referred to "select DCPS employees" as the intended recipients of the Cost-Savings Award. In later conversation, DCPS has verified that the intent of the rulemaking is to cover teachers only and shared with the OCFO information on the teachers, and no other employees of the DCPS. Therefore the calculations in this fiscal impact statement cover the teachers only.

have received a proposed or a final decision notice of removal for cause, teachers in non-highly qualified status, and teachers who have received a notice of termination for disciplinary reasons are also ineligible. Teachers must also have “clean” records to be eligible for the award.²

Analysis of Potential Costs and Savings

According to the data provided by DCPS, of the approximately 4350 teachers currently employed by DCPS, approximately 175 would not be eligible for the CSA award because they are identified as in non-highly qualified status, are on probation and would not have their contract renewed this year, or are on a 90-day performance review plan. Of the remaining approximately 4175 teachers, 570 are eligible for retirement, 828 teachers work for schools under restructuring, and 331 teachers work for schools that are currently closing. Thus, the total teacher population eligible for incentive awards under the CSA equals 1729.

| Table 3 - Target Population for the CSA Program | |
|---|---------------------------|
| <i>Group</i> | <i>Number of teachers</i> |
| Eligible for retirement | 570 |
| Employed by a restructuring school | 828 |
| Employed by a school in closing | 331 |
| Total Eligible Teacher Population | 1729 |

Table 4 outlines the calculations of the potential costs and savings from the CSA Program for teachers who are currently eligible for retirement, under certain assumptions. Currently 570 teachers are eligible for retirement by June 30, 2008. The award level for these DCPS employees is \$20,000. The average FY2008 salary among these employees is \$81,053.

The estimated uptake rate among this group is 70 percent.³ This implies that 399 of the 570 employees eligible for retirement will opt for retirement under the CSA Program. The estimated reward payment for these employees, at \$20,000 per employee, is \$7.98 million.⁴ This is the cost of the program for the retiree group in FY2008.

² The definition of “clean” is provided in the proposed rulemaking. In sum, the incentive would exclude personnel currently under indictment, charged by or convicted for a felony (or misdemeanor), or who has been convicted after a plea of *nolo contendere* to a felony (or misdemeanor) related to his or her employment duties.

³ This is merely an estimate by the OCFO, based on observations by DCPS collected on the feedback from the teachers.

⁴ This calculation assumes that retirement payments would be made after August 31, 2008, and therefore no funds are available from lapsed salaries.

| Table 4 – Potential Cost and Savings Calculations for Teachers eligible for retirement | |
|---|--------------------|
| Award Level | \$20,000 |
| Estimated uptake rate | 70% |
| Total Takers | 399 |
| Total Award Payment (FY2008) | \$7,980,000 |
| <i>Future cost savings</i> | |
| Annual baseline retirement rate | 200 |
| Retirements above the baseline as a result of CSA | 199 |
| Average annual salary and benefits for retiring group* | \$100,733 |
| Annual cost savings from the retiring group | \$20,045,801 |
| Replacement teachers hired for FY2009 | 280 |
| Average annual salary and benefits for new hires | \$59,579 |
| Annual total salary and benefit payments to new hires* | \$16,682,152 |
| Annual Salary Savings for above baseline retirements FY 2009 | \$3,363,649 |

* The salary and benefits calculations adjusts base salaries for a 4 percent cost of living increase for FY2008, and adds 19.5% of the base salary to calculate the total salary and benefit costs to the city.

The retirements motivated by the CSA program result in \$3.36 million in annual savings for future years. On average, 200 teachers retire annually. This implies that the CSA Program would motivate an additional 199 teachers to retire in FY 2008. The annual salary and benefit payments for these teachers total \$20.05 million.⁵ DCPS expects to hire 280 new teachers at a gross salary of \$59,579⁶ to fill the positions vacated by all teachers that leave DCPS as a result of the CSA Program. The annual salary and benefits cost for these teachers is \$16.68 million. The resulting cost savings for FY 2009 is estimated at 3.36 million.

Table 5 provides a summary of the costs and savings analysis for teachers in closing and restructuring schools. Detailed analysis for each experience level group is presented in the appendix. Of the 1159 teachers employed by the closing and restructuring schools, 137 are expected to take advantage of the CSA program (the average uptake ratio is estimated at 12 percent). The total award payment for this group is estimated at \$1.73 million. This amount is the cost of the CSA in FY 2008 for this group.

⁵ This salary calculation assumes a 4 percent cost of living adjustment annually and a 19.5 percent add on for benefits.

⁶ This salary is adjusted for a 4 percent cost of living adjustment and a 19.5 percent add on for benefits. The new hires for FY2008 were, on average, paid a base salary of \$47,939.

| Table 5 – Potential Cost and Savings Calculations for Teachers in restructuring and closing schools | |
|--|--|
| Group total | 1159 |
| Award Level | \$1000 to \$20,000 based on experience |
| Estimated uptake rate | 5% to 20% depending on salary level |
| Total Takers | 138 |
| Total Award Payment (FY2008) | \$1,730,500 |
| <i>Future Cost Savings</i> | |
| Average FY2008 Base salaries for exiting teachers | \$49,436 to \$81,516 |
| Estimated Average FY2009 Salary and benefits for exiting teachers | \$61,439 to \$101,308 |
| FY2009 salary and benefits for new hires | \$59,579 |
| Annual savings per new hire | \$1,859 to \$41,729 |
| Estimated Cost savings (FY 2009) | \$4,045,413 |

On the other hand, in future years, DCPS is estimated to save \$1,859 to \$41,729, depending on the years of service of the exiting teachers, for every new hire in FY 2009 and future fiscal years. The total potential cost savings estimate for this group of teachers in FY 2009 is \$4.05 million.

Appendix:

List of schools that are under restructuring

| School Name | Total number of teachers* | School Name | Total number of teachers |
|-----------------------------|---------------------------|-------------------------------|--------------------------|
| Anacostia Senior High Sch | 62 | Lincoln Middle School | 29 |
| Ballou Senior High School | 88 | Macfarland Middle School | 22 |
| Ron Brown Middle School | 10 | Miner Elementary School | 32 |
| Browne Junior High School | 18 | Moten Elementary School | 15 |
| Cardozo Senior High School | 75 | Roosevelt Senior High School | 61 |
| Coolidge Senior High School | 49 | Shaw Junior High School | 22 |
| Dunbar Senior High School | 65 | Sousa Middle School | 24 |
| Eastern Senior High School | 59 | Spingarn Senior High School | 42 |
| Eliot Junior High School | 18 | Stanton Elementary School | 20 |
| Garnet Patterson Middle S | 18 | Truesdell Elementary School | 24 |
| Green Elementary School | 16 | Webb Elementary School | 20 |
| Hart Middle School | 37 | Wilson, W. Senior High School | 100 |
| Johnson Junior High School | 24 | Woodson, H.D. Senior High | 61 |
| Kramer Middle School | 25 | Grand Total | 1036 |

* Includes those eligible for retirement.

List of Closing Schools

| School Name | Total number of teachers | School Name | Total number of teachers |
|------------------------------|--------------------------|------------------------------|--------------------------|
| Backus Middle School | 17 | Harris, P.R Education Cent | 42 |
| Benning Elementary School | 14 | Hine Junior High | 12 |
| Bowen Elementary School | 15 | Meyer Elementary School | 19 |
| Bunker Hill Elementary Sc | 17 | Park View Elementary School | 18 |
| Choice Program (Douglass) | 10 | Rudolph Elementary School | 14 |
| Choice Program (Taft) | 8 | Slowe Elementary School | 16 |
| Clark Elementary School | 16 | Stevens Elementary School | 14 |
| Cook, J.F. Elementary School | 12 | Taft Elementary School | 14 |
| Douglass Transition Academy | 15 | Washington, M.M. Senior High | 19 |
| Gage-Eckington Elementary | 17 | Wilkinson Elementary School | 20 |
| Gibbs Elementary School | 19 | Young Elementary School | 19 |
| Green Elementary School | 16 | Grand Total | 382 |

* Includes those eligible for retirement.

Detailed analysis of Costs and Savings in schools under closing or restructuring plans

| | less than 5 | Over 5 and up to 10 years | Over 10 and up to 15 years | Over 15 and up to 20 years | Over 20 Years |
|---|-----------------|---------------------------|----------------------------|----------------------------|--------------------|
| Group total | 440 | 236 | 97 | 99 | 287 |
| Award Level | \$1,000 | \$5,000 | \$10,000 | \$15,000 | \$20,000 |
| Estimated uptake rate | 5% | 10% | 15% | 20% | 20% |
| Total Takers | 22 | 24 | 15 | 20 | 57 |
| Total Payment (FY2008) | \$22,000 | \$118,000 | \$145,500 | \$297,000 | \$1,148,000 |
| Future Cost Savings | | | | | |
| Average FY2008 Base salaries for exiting teachers | \$49,436 | \$64,074 | \$70,944 | \$77,202 | \$81,516 |
| Estimated Average FY2009 Salary and benefits for exiting teachers | \$61,439 | \$79,632 | \$88,169 | \$95,946 | \$101,308 |
| FY 2009 Salary and benefits for new hires | \$59,579 | \$59,579 | \$59,579 | \$59,579 | \$59,579 |
| Savings per new hire | \$1,859 | \$20,052 | \$28,590 | \$36,367 | \$41,729 |
| Estimated Cost savings for FY 2009 | \$40,908 | \$473,238 | \$415,979 | \$720,071 | \$2,395,217 |
| Estimated Cost Savings for FY2010 | \$42,544 | \$492,167 | \$432,618 | \$748,874 | \$2,491,026 |
| Estimated Cost Savings for FY2011 | \$44,246 | \$511,854 | \$449,923 | \$778,829 | \$2,590,667 |